



CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended December 31, 2005

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Charter Township of Portsmouth	County Bay
Audit Date December 31, 2005	Opinion Date April 4, 2006	Date Accountant Report Submitted to State: April 24, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature Campbell, Kusterer & Co. P.C.			

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

April 4, 2006

To the Township Board
Charter Township of Portsmouth
Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Charter Township of Portsmouth, Bay County, Michigan as of and for the year ended December 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Charter Township of Portsmouth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Charter Township of Portsmouth, Bay County, Michigan as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, of these activities and funds for the year ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2005

The Management's Discussion and Analysis report of the Charter Township of Portsmouth covers the Township's financial performance during the year ended December 31, 2005.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at December 31, 2005, totaled \$1,346,970.11 for governmental activities and \$3,707,173.59 for business-type activities.

Overall revenues were \$1,383,245.88 (\$779,011.15 from governmental activities and \$604,234.73 from business-type activities). Overall Township activities had a \$259,560.14 increase in net assets in 2005.

Taxable value increased by \$3,050,485.00.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities and business-type activities. These include the General Fund, the Water Fund and the Sewer Fund.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2005

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: Some of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund.

Business-Type Funds: The Township has a Water Fund and a Sewer Fund which includes the activity of providing revenue to pay bond debt.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

We continue to pay required amounts on our sewer and water loans as special assessments and debt service are collected.

The sewer bond (\$7,250,000.00) has a principal balance of \$2,935,000.00 with payments scheduled through 2012. Special assessment and debt service revenue appear to be sufficient to cover these bond payments.

1977 Merritt/Portsmouth Water Bond Issue (Portsmouth share \$233,436.00): This issue has a principal balance of \$108,381.00 with payments scheduled through 2016. Debt service revenue appears to be sufficient to cover these payments.

1998 Merritt/Portsmouth Water Bond Issue (Portsmouth share \$1,316,000.00): This issue has a principal balance of \$936,505.82 with payments scheduled through 2018. Special assessment and debt service revenue appears to be sufficient to cover these payments.

Our cash position in both governmental and business-type activities remain strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant are Fire Protection which incurred expenses of \$99,861.86 and Law Enforcement with expenditures of \$71,698.72. Contracted Trash Collection is a significant expenditure each year, \$149,288.88 in 2005. These funds are provided by a special assessment, updated yearly, on all residences.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$0 in capital assets.

The Township's business-type activities invested \$0 in capital assets.

The Township's governmental activities paid \$0 of principal on long-term debt.

The Township's business-type activities paid \$73,338.38 of principal on the Water Bonds payable, and \$390,000.00 of principal on the Sewer Bonds payable.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended December 31, 2005

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income. We continue to grow in taxable values with little demand for infrastructure, except good roads and water, where available.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenue it receives. If you have any questions about this report or need additional information, we welcome you to contact the Township office at 989-892-7221.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2005

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash on hand	100 00	-	100 00
Cash in bank	528 364 04	517 185 53	1 045 549 57
Taxes receivable	239 830 11	176 596 47	416 426 58
Special assessments receivable	-	1 057 261 03	1 057 261 03
Internal balances	70 040 85	(70 040 85)	-
Due from State of Michigan	43 928 00	-	43 928 00
Total Current Assets	<u>882 263 00</u>	<u>1 681 002 18</u>	<u>2 563 265 18</u>
NON-CURRENT ASSETS:			
Capital Assets	1 291 011 33	10 042 038 00	11 333 049 33
Less: Accumulated Depreciation	<u>(423 658 69)</u>	<u>(2 712 054 00)</u>	<u>(3 135 712 69)</u>
Total Non-current Assets	<u>867 352 64</u>	<u>7 329 984 00</u>	<u>8 197 336 64</u>
TOTAL ASSETS	<u><u>1 749 615 64</u></u>	<u><u>9 010 986 18</u></u>	<u><u>10 760 601 82</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	7 652 58	-	7 652 58
Accrued payroll taxes	1 469 66	-	1 469 66
Deferred revenue	393 523 29	1 323 925 77	1 717 449 06
Total Current Liabilities	<u>402 645 53</u>	<u>1 323 925 77</u>	<u>1 726 571 30</u>
NON-CURRENT LIABILITIES:			
Contracts payable	-	3 979 886 82	3 979 886 82
Total Non-current Liabilities	<u>-</u>	<u>3 979 886 82</u>	<u>3 979 886 82</u>
Total Liabilities	<u>402 645 53</u>	<u>5 303 812 59</u>	<u>5 706 458 12</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	867 352 64	3 350 097 18	4 217 449 82
Restricted for debt service	-	357 076 41	357 076 41
Unrestricted	479 617 47	-	479 617 47
Total Net Assets	<u>1 346 970 11</u>	<u>3 707 173 59</u>	<u>5 054 143 70</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>1 749 615 64</u></u>	<u><u>9 010 986 18</u></u>	<u><u>10 760 601 82</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended December 31, 2005

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	9 850 00	-	(9 850 00)
General government	225 831 04	59 663 00	(166 168 04)
Public safety	239 331 35	36 831 62	(202 499 73)
Public works	218 428 93	177 439 00	(40 989 93)
Recreation and culture	979 99	-	(979 99)
Other	55 363 11	-	(55 363 11)
Total Governmental Activities	<u>749 784 42</u>	<u>273 933 62</u>	<u>(475 850 80)</u>
Business-Type Activities:			
Water and sewer	<u>373 901 32</u>	<u>266 392 91</u>	<u>-</u>
Total Business-Type Activities	<u>373 901 32</u>	<u>266 392 91</u>	<u>-</u>
Total Government	<u>1 123 685 74</u>	<u>540 326 53</u>	<u>(475 850 80)</u>
General Revenues:			
Property taxes			164 749 85
State revenue sharing			267 655 13
Interest			16 088 97
Miscellaneous			<u>56 583 58</u>
Total General Revenues			<u>505 077 53</u>
Change in net assets			29 226 73
Net assets, beginning of year			<u>1 317 743 38</u>
Net Assets, End of Year			<u>1 346 970 11</u>

The accompanying notes are an integral part of these financial statements.

<u>Business-Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
-	(9 850 00)
-	(166 168 04)
-	(202 499 73)
-	(40 989 93)
-	(979 99)
-	(55 363 11)
-	(475 850 80)
<u>(107 508 41)</u>	<u>(107 508 41)</u>
<u>(107 508 41)</u>	<u>(107 508 41)</u>
<u>(107 508 41)</u>	<u>(583 359 21)</u>
-	164 749 85
-	267 655 13
83 413 81	99 502 78
<u>254 428 01</u>	<u>311 011 59</u>
<u>337 841 82</u>	<u>842 919 35</u>
230 333 41	259 560 14
<u>3 476 840 18</u>	<u>4 794 583 56</u>
<u>3 707 173 59</u>	<u>5 054 143 70</u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

BALANCE SHEET -- GOVERNMENTAL FUNDS
December 31, 2005

	<u>General</u>
<u>Assets</u>	
Cash on hand	100 00
Cash in bank	528 364 04
Taxes receivable	239 830 11
Internal balances	70 040 85
Due from State of Michigan	<u>43 928 00</u>
Total Assets	<u>882 263 00</u>
<u>Liabilities and Fund Equity</u>	
Liabilities:	
Accounts payable	7 652 58
Accrued payroll taxes	1 469 66
Deferred revenue	<u>393 523 29</u>
Total liabilities	<u>402 645 53</u>
Fund equity:	
Fund balances:	
Unreserved:	
Undesignated	<u>479 617 47</u>
Total fund equity	<u>479 617 47</u>
Total Liabilities and Fund Equity	<u>882 263 00</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
December 31, 2005

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	479 617 47
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	1 291 011 33
Accumulated depreciation	(423 658 69)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Contract payable	<u>-</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>1 346 970 11</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended December 31, 2005

	<u>General</u>
Revenues:	
Property taxes	164 749 85
Licenses and permits	59 663 00
State revenue sharing	267 655 13
Charges for services	36 831 62
Interest	16 088 97
Special assessments	177 439 00
Miscellaneous	<u>56 583 58</u>
Total Revenues	<u>779 011 15</u>
Expenditures:	
Legislative:	
Township Board	9 850 00
General government:	
Supervisor	16 594 00
Elections	3 604 44
Assessor	19 500 00
Clerk	16 654 82
Board of Review	875 50
Treasurer	16 300 00
Building and grounds	31 647 62
Unallocated	108 096 65
Public safety:	
Law enforcement	71 698 72
Fire protection	99 861 86
Inspection	32 394 78
Planning and zoning	8 033 00
Public works:	
Highways and streets	41 583 69
Drains	27 556 36
Sanitation	149 288 88
Other:	
Retirement plan	24 242 30
Insurance	<u>31 120 81</u>
Total expenditures	<u>708 903 43</u>
Excess of revenues over expenditures	70 107 72
Fund balance, January 1	<u>409 509 75</u>
Fund Balance, December 31	<u><u>479 617 47</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended December 31, 2005

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 70 107 72

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(40 880 99)
Capital Outlay	<u>-</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>29 226 73</u></u>
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The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS
December 31, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	358 165 58	159 019 95	517 185 53
Taxes receivable	51 974 92	124 621 55	176 596 47
Special assessments receivable	597 651 13	459 609 90	1 057 261 03
Internal balances	-	(70 040 85)	(70 040 85)
Total Current Assets	<u>1 007 791 63</u>	<u>673 210 55</u>	<u>1 681 002 18</u>
NON-CURRENT ASSETS:			
Capital Assets	2 362 505 00	7 679 533 00	10 042 038 00
Less: Accumulated Depreciation	<u>(525 235 00)</u>	<u>(2 186 819 00)</u>	<u>(2 712 054 00)</u>
Total Non-current Assets	<u>1 837 270 00</u>	<u>5 492 714 00</u>	<u>7 329 984 00</u>
TOTAL ASSETS	<u><u>2 845 061 63</u></u>	<u><u>6 165 924 55</u></u>	<u><u>9 010 986 18</u></u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Deferred revenue	<u>683 523 22</u>	<u>640 402 55</u>	<u>1 323 925 77</u>
Total Current Liabilities	<u>683 523 22</u>	<u>640 402 55</u>	<u>1 323 925 77</u>
NON-CURRENT LIABILITIES:			
Contracts payable	<u>1 044 886 82</u>	<u>2 935 000 00</u>	<u>3 979 886 82</u>
Total Non-current Liabilities	<u>1 044 886 82</u>	<u>2 935 000 00</u>	<u>3 979 886 82</u>
Total Liabilities	<u>1 728 410 04</u>	<u>3 575 402 55</u>	<u>5 303 812 59</u>
NET ASSETS:			
Invested in Capital Assets,			
Net of Related Debt	792 383 18	2 557 714 00	3 350 097 18
Restricted for debt service	<u>324 268 41</u>	<u>32 808 00</u>	<u>357 076 41</u>
Total Net Assets	<u>1 116 651 59</u>	<u>2 590 522 00</u>	<u>3 707 173 59</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>2 845 061 63</u></u>	<u><u>6 165 924 55</u></u>	<u><u>9 010 986 18</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUSINESS-TYPE FUNDS
Year ended December 31, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES:			
Charges for services:			
Special assessments	69 506 25	196 886 66	266 392 91
Total Operating Revenues	69 506 25	196 886 66	266 392 91
OPERATING EXPENSES:			
Contracted services	16 515 52	-	16 515 52
Depreciation	56 773 00	192 043 00	248 816 00
Total Operating Expenses	73 288 52	192 043 00	265 331 52
Operating Income (loss)	(3 782 27)	4 843 66	1 061 39
NON-OPERATING REVENUES (EXPENSES):			
Transfers from Bay Co. Water and Sewer	30 078 01	224 350 00	254 428 01
Interest income	48 221 78	35 192 03	83 413 81
Interest expense	(45 969 80)	(62 600 00)	(108 569 80)
Total Non-operating Revenues (Expenses)	32 329 99	196 942 03	229 272 02
Change in net assets	28 547 72	201 785 69	230 333 41
Net assets, beginning of year	1 088 103 87	2 388 736 31	3 476 840 18
Net Assets, End of Year	<u>1 116 651 59</u>	<u>2 590 522 00</u>	<u>3 707 173 59</u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS-TYPE FUNDS
Year ended December 31, 2005

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	69 506 25	196 886 66	266 392 91
Cash payments to suppliers for goods and services	<u>(16 515 52)</u>	<u>-</u>	<u>(16 515 52)</u>
Net cash provided (used) by operating activities	<u>52 990 73</u>	<u>196 886 66</u>	<u>249 877 39</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Net increase (decrease) in cash from CTC Fund recognized in deferred revenue	<u>(7 962 83)</u>	<u>(15 507 34)</u>	<u>(23 470 17)</u>
Net cash provided (used) for non-capital financing activities	<u>(7 962 83)</u>	<u>(15 507 34)</u>	<u>(23 470 17)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Transfers from Bay Co. W & S	30 078 01	224 350 00	254 428 01
Principal on contracts payable	(73 338 38)	(390 000 00)	(463 338 38)
Interest on contracts payable	<u>(45 969 80)</u>	<u>(62 600 00)</u>	<u>(108 569 80)</u>
Net cash provided (used) by capital and related financing activities	<u>(89 230 17)</u>	<u>(228 250 00)</u>	<u>(317 480 17)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest on investments	<u>48 221 78</u>	<u>35 192 03</u>	<u>83 413 81</u>
Net increase (decrease) in cash	4 019 51	(11 678 65)	(7 659 14)
Cash beginning of year	<u>354 146 07</u>	<u>170 698 60</u>	<u>524 844 67</u>
Cash End of Year	<u><u>358 165 58</u></u>	<u><u>159 019 95</u></u>	<u><u>517 185 53</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income (loss) from operations	(3 782 27)	4 843 66	1 061 39
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:			
Depreciation	<u>56 773 00</u>	<u>192 043 00</u>	<u>248 816 00</u>
Net Cash Provided (Used) in Operating Activities	<u><u>52 990 73</u></u>	<u><u>196 886 66</u></u>	<u><u>249 877 39</u></u>

The accompanying notes are an integral part of these financial statements.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Portsmouth, Bay County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Charter Township of Portsmouth. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Fiduciary Funds

These funds are used to account for assets held as an agent for others.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes are accrued in the year in which they are levied. The tax levy is recorded as deferred revenue until the subsequent year when it becomes available for use.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2004 tax roll millage rate was 2.1815 mills, and the taxable value was \$75,684,546.00.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	30-60 years
Vehicles and equipment	3-35 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 2 – Budgets and Budgetary Accounting (continued)

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>1 340 003 72</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	100 000 00
Uninsured and Uncollateralized	<u>1 252 850 40</u>
Total Deposits	<u>1 352 850 40</u>

The Charter Township of Portsmouth did not have any investments as of December 31, 2005.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental and Business-Type activities for the current year was as follows:

	Balance 1/1/05	Additions	Deletions	Balance 12/31/05
<u>Governmental Activities:</u>				
Land	212 975 00	-	-	212 975 00
Buildings	299 300 00	-	-	299 300 00
Equipment	778 736 33	-	-	778 736 33
Total	1 291 011 33	-	-	1 291 011 33
Accumulated Depreciation	(382 777 70)	(40 880 99)	-	(423 658 69)
Net Governmental Capital Assets	<u>908 233 63</u>	<u>(40 880 99)</u>	<u>-</u>	<u>867 352 64</u>
<u>Business-Type Activities:</u>				
Water System	2 362 505 00	-	-	2 362 505 00
Sewer System	7 679 533 00	-	-	7 679 533 00
Total	10 042 038 00	-	-	10 042 038 00
Accumulated Depreciation	(2 463 238 00)	(248 816 00)	-	(2 712 054 00)
Net Business-Type Capital Assets	<u>7 578 800 00</u>	<u>(248 816 00)</u>	<u>-</u>	<u>7 329 984 00</u>

Note 5 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	8 85	Agency	8 85
General	70 040 85	Sewer	70 040 85
General	380 918 11	Current Tax Collection	647 582 85
Sewer	180 792 65		
Water	85 872 09		
Total	<u>717 632 55</u>	Total	<u>717 632 55</u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 6 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	<u>Balance 1/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/05</u>
Contracts payable –1977 Bay				
County Water	116 321 00	-	7 940 00	108 381 00
Contract payable – 1998 Bay				
County Water	1 001 904 20	-	65 398 38	936 505 82
Contract payable – 1990 Bay				
County Sewage –				
Series I	2 805 000 00	-	320 000 00	2 485 000 00
Contract payable – 1990 Bay				
County Sewage –				
Series II	<u>520 000 00</u>	<u>-</u>	<u>70 000 00</u>	<u>450 000 00</u>
Total	<u>4 443 225 20</u>	<u>-</u>	<u>463 338 38</u>	<u>3 979 886 82</u>

Note 7 – Contract Payable – 1977 Bay County Water Supply System (Merritt – Portsmouth)

On May 19, 1977, pursuant to an agreement with the Townships of Portsmouth and Merritt, Bay County, issued \$588,000.00 of its bonds to finance the cost of acquisition of water facilities in the Townships. The Township of Portsmouth is responsible for \$233,436.00, 39.7% of the project, and the Township of Merritt is responsible for \$354,564.00, 60.3% of the project. Under this agreement, the Township becomes liable for its share of the bond issue and interest thereon in the event that revenues derived from charges to the system users are insufficient to pay therefore. As of December 31, 2005, the bonds outstanding amounted to \$273,000.00 plus interest. Portsmouth Township's portion of the bonds outstanding is \$108,381.00 and they are backed by the full faith and credit of the Township.

In addition, the terms of the agreement provide for the Township to be liable for any deficiencies in user charges necessary to cover operation and maintenance of the system, as well as any repairs and replacements or extensions and improvements that are made for the benefit of the Township.

The agreement also provides that the County will own the system, and that the system will be operated by the Board of County Road Commissioners as the County's agent until the lessor of forty years or the retirement of all the bonds and related interest. Upon the occurrence of one of these events, the agreement is terminated and title to the system is transferred to the Townships of Portsmouth and Merritt based on their pro rata portion. The following is the detail of bonds outstanding at December 31, 2005. In addition, the Township is obligated to pay its pro rata share of the interest.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 7 – Contract Payable – 1977 Bay County Water Supply System (Merritt – Portsmouth) (continued)

<u>Bond Numbers</u>	<u>Due Date</u>	<u>Total Principal</u>	<u>Portsmouth Township Portion</u>
316-337	4/1/06	22,000	8,734
338-359	4/1/07	22,000	8,734
360-383	4/1/08	24,000	9,528
384-409	4/1/09	26,000	10,322
410-435	4/1/10	26,000	10,322
436-461	4/1/11	26,000	10,322
462-487	4/1/12	26,000	10,322
488-513	4/1/13	26,000	10,322
514-538	4/1/14	25,000	9,925
539-563	4/1/15	25,000	9,925
564-588	4/1/16	25,000	9,925
Total Outstanding		<u>273,000</u>	<u>108,381</u>

Note 8 – Contract Payable - 1998 Bay County Water Supply System (Merritt-Portsmouth Extension)

On May 1, 1998, the Township entered into an agreement with Bay County to acquire and construct water storage facilities in the Township. Pursuant to the agreement Bay County issued its bonds to finance the cost of the project. Under the agreement the Township pledges its full faith and credit for payment of the bond issue and, interest thereon in the event that revenues derived from charges to the systems users are insufficient to pay therefore. As of December 31, 2005, the Township of Portsmouth's portion of the bonds outstanding amounted to \$936,505.82 plus interest. The following is a detail of bonds outstanding at December 31, 2005. In addition the Township is obligated to pay interest on the bonds.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
5/1/06	4.70	68,014.32
5/1/07	4.70	68,014.32
5/1/08	4.70	68,014.32
5/1/09	4.70	70,630.25
5/1/10	4.70	70,630.25
5/1/11	4.70	70,630.25
5/1/12	4.75	70,630.25
5/1/13	4.75	73,246.19
5/1/14	4.75	73,246.19
5/1/15	4.75	75,862.12
5/1/16	4.75	75,862.12
5/1/17	4.75	75,862.12
5/1/18	4.75	75,863.12
Total Outstanding		<u>936,505.82</u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
December 31, 2005

Note 9 – Contract Payable – 1990 Bay County Sewage Disposal System (Portsmouth Charter Township)

On November 1, 1990, the Township entered into an agreement with Bay County to acquire and construct sanitary sewage facilities in the Township. Pursuant to the agreement Bay County issued \$6,000,000.00 and \$1,250,000.00 of its bonds to finance the cost of the project. Under the agreement the Township pledged its full faith and credit for payment of the bond issues and interest thereon in the event that revenues derived from charges to the systems users are insufficient to pay therefore. As of December 31, 2005, the bonds outstanding amounted to \$2,935,000.00 plus interest. The following is the detail of the bonds outstanding at December 31, 2005. In addition the Township is obligated to pay interest on the bonds.

<u>Due Date</u>	<u>Total Principal</u>
10/1/06	395,000
10/1/07	405,000
10/1/08	410,000
10/1/09	415,000
10/1/10	425,000
10/1/11	435,000
10/1/12	450,000
Total Outstanding	<u>2,935,000</u>

Note 10 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 11 – Retirement Plan

The Township has a retirement plan whereby annuities are purchased on behalf of Township employees. All employees, with certain exceptions, are eligible for coverage. Payments to the plan are based on the annual earnings of participating employees. Under the plan, the Township pays three-fourths of the contributions and the participating employees pay the remaining one-fourth of contributions. Employees may contribute an additional 10% of their earnings on a voluntary basis. The Township's share of retirement contributions for the year ended December 31, 2005, was \$24,242.30.

Note 12 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 13 – Building Permits

As of December 31, 2005, the Township had building permit revenues of \$38,180.50 and building permit expenses of \$32,394.78.

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	168 000 00	168 000 00	164 749 85	(3 250 15)
Licenses and permits	63 100 00	63 100 00	59 663 00	(3 437 00)
State revenue sharing	260 000 00	260 000 00	267 655 13	7 655 13
Charges for services	36 000 00	36 000 00	36 831 62	831 62
Interest	5 000 00	5 000 00	16 088 97	11 088 97
Special assessments	170 000 00	170 000 00	177 439 00	7 439 00
Miscellaneous	32 000 00	57 000 00	56 583 58	(416 42)
Total revenues	<u>734 100 00</u>	<u>759 100 00</u>	<u>779 011 15</u>	<u>19 911 15</u>
Expenditures:				
Legislative:				
Township Board	10 050 00	10 050 00	9 850 00	(200 00)
General government:				
Supervisor	16 800 00	16 800 00	16 594 00	(206 00)
Elections	2 000 00	6 000 00	3 604 44	(2 395 56)
Assessor	20 500 00	20 500 00	19 500 00	(1 000 00)
Clerk	16 800 00	16 800 00	16 654 82	(145 18)
Board of Review	1 500 00	2 000 00	875 50	(1 124 50)
Treasurer	16 800 00	16 800 00	16 300 00	(500 00)
Building and grounds	30 000 00	40 000 00	31 647 62	(8 352 38)
Unallocated	83 000 00	109 500 00	108 096 65	(1 403 35)
Public safety:				
Law enforcement	75 000 00	74 000 00	71 698 72	(2 301 28)
Fire protection	91 000 00	103 000 00	99 861 86	(3 138 14)
Inspection	41 000 00	41 000 00	32 394 78	(8 605 22)
Planning and zoning	12 000 00	12 000 00	8 033 00	(3 967 00)
Public works:				
Highways and streets	35 000 00	44 000 00	41 583 69	(2 416 31)
Drains	28 000 00	28 000 00	27 556 36	(443 64)
Sanitation	165 000 00	154 500 00	149 288 88	(5 211 12)
Other:				
Retirement plan	30 000 00	30 000 00	24 242 30	(5 757 70)
Insurance	35 000 00	35 000 00	31 120 81	(3 879 19)
Capital outlay	20 000 00	-	-	-
Total expenditures	<u>729 450 00</u>	<u>759 950 00</u>	<u>708 903 43</u>	<u>(51 046 57)</u>
Excess (deficiency) of revenues over expenditures	4 650 00	(850 00)	70 107 72	70 957 72
Fund balance, January 1	<u>395 000 00</u>	<u>395 000 00</u>	<u>409 509 75</u>	<u>14 509 75</u>
Fund Balance, December 31	<u>399 650 00</u>	<u>394 150 00</u>	<u>479 617 47</u>	<u>85 467 47</u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended December 31, 2005

Township Board:	
Salaries	<u>9 850 00</u>
Supervisor:	
Salary	16 300 00
Supplies	<u>294 00</u>
	<u>16 594 00</u>
Elections:	
Wages	2 340 00
Supplies	106 19
Miscellaneous	<u>1 158 25</u>
	<u>3 604 44</u>
Assessor	<u>19 500 00</u>
Clerk:	
Salary	16 299 83
Supplies	<u>354 99</u>
	<u>16 654 82</u>
Board of Review:	
Wages	<u>875 50</u>
Treasurer:	
Salary	9 750 00
Wages	<u>6 550 00</u>
	<u>16 300 00</u>
Building and grounds:	
Utilities	15 835 40
Repairs and maintenance	11 077 95
Supplies	589 83
Miscellaneous	<u>4 144 44</u>
	<u>31 647 62</u>
Unallocated:	
Printing and publishing	1 584 19
Supplies	4 671 71
Clerical assistance	11 604 50
Accounting fees	2 800 00
Audit fees	7 400 00
Legal fees	30 378 28
Payroll taxes	2 422 14
Dues, conventions and conferences	8 305 89
Contracted services	13 817 27
Miscellaneous	<u>25 112 67</u>
	<u>108 096 65</u>
Law enforcement:	
Contracted services	<u>71 698 72</u>
Fire protection:	
Wages	65 620 41
Supplies	20 993 37
Repairs and maintenance	11 207 06
Miscellaneous	<u>2 041 02</u>
	<u>99 861 86</u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended December 31, 2005

Inspection:	
Building	21 982 86
Plumbing	3 393 92
Electrical	7 018 00
	<u>32 394 78</u>
Planning and zoning:	
Wages	<u>8 033 00</u>
Highways and streets:	
Street lighting	19 041 85
Street repairs and maintenance	<u>22 541 84</u>
	<u>41 583 69</u>
Drains	<u>27 556 36</u>
Sanitation:	
Contracted services	<u>149 288 88</u>
Retirement plan	<u>24 242 30</u>
Insurance	<u>31 120 81</u>
Total Expenditures	<u><u>708 903 43</u></u>

CHARTER TOWNSHIP OF PORTSMOUTH
Bay County, Michigan

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – ALL AGENCY FUNDS
Year ended December 31, 2005

	<u>Balance 1/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/05</u>
<u>CURRENT TAX COLLECTION FUND</u>				
<u>Assets</u>				
Cash in bank	676 785 57	2 631 817 17	2 783 028 32	525 574 42
Taxes receivable	920 999 19	2 866 899 59	2 786 412 14	1 001 486 64
Total Assets	<u>1 597 784 76</u>	<u>5 498 716 76</u>	<u>5 569 440 46</u>	<u>1 527 061 06</u>
<u>Liabilities</u>				
Due to other funds	639 456 51	615 005 77	606 879 43	647 582 85
Due to other units	958 328 25	2 097 298 85	2 176 148 89	879 478 21
Total Liabilities	<u>1 597 784 76</u>	<u>2 712 304 62</u>	<u>2 783 028 32</u>	<u>1 527 061 06</u>
<u>AGENCY FUND</u>				
<u>Assets</u>				
Cash in Bank	<u>7 01</u>	<u>59 163 89</u>	<u>59 126 05</u>	<u>44 85</u>
<u>Liabilities</u>				
Due to other funds	7 01	55 340 31	55 338 47	8 85
Due to other units	-	3 823 58	3 787 58	36 00
Total Liabilities	<u>7 01</u>	<u>59 163 89</u>	<u>59 126 05</u>	<u>44 85</u>
<u>TOTALS – ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash in bank	676 792 58	2 690 981 06	2 842 154 37	525 619 27
Taxes receivable	920 999 19	2 866 899 59	2 786 412 14	1 001 486 64
Total Assets	<u>1 597 791 77</u>	<u>5 557 880 65</u>	<u>5 628 566 51</u>	<u>1 527 105 91</u>
<u>Liabilities</u>				
Due to other funds	639 463 52	670 346 08	632 217 90	647 591 70
Due to other units	958 328 25	2 101 122 43	2 179 936 47	879 514 21
Total Liabilities	<u>1 597 791 77</u>	<u>2 771 468 51</u>	<u>2 842 154 37</u>	<u>1 527 105 91</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100
P.O. BOX 686
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040
FAX (989) 894-5494

AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

April 4, 2006

To the Township Board
Charter Township of Portsmouth
Bay County, Michigan

We have audited the financial statements of the Charter Township of Portsmouth for the year ended December 31, 2005. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Charter Township of Portsmouth in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Charter Township of Portsmouth
Bay County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated December 31, 2005.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co. P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants